Northeast Group Berhad (0325)

Photonics Boom Ahead

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BUY ⇔

TP: RM 1.06 (+38%) ↑

Current Share Price: RM 0.775

Valuation

Our target price is based on:

FY26F PE of 23x, which is slightly below the peers' average forward PE of 26x, given a smaller market cap and the gradual recovery in semiconductor industry.

Update Report | **Growth** | **Investment Horizon : 12 months**

Outlook

Following the briefing, we remain optimistic about Northeast's outlook, supported by resilient demand for photonics such as high-power lasers, and fibre-optic products, which continue to drive strong revenue contributions. We understand that the higher value added on complex products will raise average selling prices from existing customers, while new product innovations (NPIs) are expected to deliver better margins despite lower volumes. Its orderbook increased by 80% to RM45mn in 4Q25 (from RM25mn in 3Q25), mainly driven by the photonics segment. This reflects growing customer demand, with Northeast being awarded more NPIs that carry stronger margins, which we expect to transition into mass production in FY26F. Meanwhile, the semiconductor segment remains stable. We believe Northeast is also benefiting from trade diversion amid geopolitical tensions, as a semiconductor customer has shut down one plant and shifted orders to Northeast. Consequently, we raise our FY26F earnings forecast by 9% to reflect stronger, higher-margin contributions from the photonics segment.

Recommendation

We reiterate BUY call with new target price of RM1.06 (from RM0.97), based on unchanged FY26F PE of 23x, reflecting resilient demand from photonic market.

Key Assumption

	Before			After		
Revenue growth	FY2026F	FY2027F	FY2028F	FY2026F	FY2027F	FY2028F
Photonics	52%	25%	New	65%	15%	10%
E&E	15%	20%	New	15%	20%	10%
Semiconductor	15%	15%	New	15%	15%	10%
Telecommunication	2%	5%	New	2%	5%	5%
Optoelectronics	2%	5%	New	2%	5%	10%

Financial Exhibits

FYE 30 Sept	FY2024A	FY2025A	FY2026F	FY2027F	FY2028F
Revenue (RMmn)	90.1	119.6	157.2	180.5	197.8
EBITDA (RMmn)	28.6	38.0	57.6	62.1	71.1
Pretax profit (RMmn)	19.1	26.6	46.8	51.3	59.3
Net profit (RMmn)	13.7	20.5	34.1	37.4	43.3
EPS (sen)	2.4	2.8	4.6	5.1	5.9
PER (x)	30.3	26.3	15.9	14.4	12.5
Core net profit (RMmn)	13.7	22.9	34.1	37.4	43.3
Core EPS (sen)	2.4	3.1	4.6	5.1	5.9
Core EPS growth (%)	(3.0)	28.5	48.8	9.9	15.7
Core PER (x)	30.3	23.6	15.9	14.4	12.5
Net DPS (sen)	0	0	0	0	0
Dividend Yield (%)	0	0	0	0	0
ROE (%)	8.8	8.8	11.6	11.3	11.6
P/BV (x)	2.7	2.1	1.8	1.6	1.4

Investment Risk

1. Intense competitive environment. The precision engineering and components manufacturing industry is highly competitive, both regionally and globally. Competitors from lower-cost countries may undercut pricing, impacting margins and market share.

2. Technology and Capital Investment Risk. Continuous investment is required to keep up with rapid technological changes in precision engineering and automation. Failure to invest in advanced machinery, process innovation, or digitalization could lead to obsolescence and loss of competitiveness.

3. Labour Dependency and Regulatory Exposure. The Group relies heavily on skilled and semi-skilled labour, including foreign workers. Changes in government policies regarding foreign labour quotas, work permits, or minimum wages could disrupt operations or increase labour costs

Financial Exhibits

Income Statement

FYE 30 Sept (RMmn)	FY2024A	FY2025F	FY2026F	FY2027F	FY2028F
Revenue	90.1	119.6	157.2	180.5	197.8
Operating expenses	(61.5)	(81.7)	(99.7)	(118.4)	(126.6)
EBITDA	**28.6**	**38.0**	**57.6**	**62.1**	**71.1**
Depreciation	(8.1)	(8.2)	(9.1)	(9.1)	(10.2)
EBIT	**20.6**	**29.8**	**48.4**	**53.0**	**60.9**
Net int income/(expense)	(1.5)	(0.8)	(1.6)	(1.7)	(1.6)
Exceptional gains / (losses)	0.0	(2.4)	0.0	0.0	0.0
Associates' contribution	0.0	0.0	0.0	0.0	0.0
Pretax profit	**19.1**	**26.6**	**46.8**	**51.3**	**59.3**
Tax	(5.3)	(6.0)	(12.7)	(13.8)	(16.0)
Minority interest	0.0	0.0	0.0	0.0	0.0
Net profit	**13.7**	**20.5**	**34.1**	**37.4**	**43.3**
Core net profit	**13.7**	**22.9**	**34.1**	**37.4**	**43.3**

Balance Sheet Statement

FYE 30 Sept (RMmn)	FY2024A	FY2025F	FY2026F	FY2027F	FY2028F
Fixed assets	70.6	80.8	89.6	91.5	92.4
Other long term assets	21.4	25.0	17.9	17.9	16.9
Total non-current assets	**92.1**	**105.8**	**107.5**	**109.4**	**109.2**
Cash and equivalents	87.1	153.2	174.8	205.9	247.2
Inventories	2.6	3.8	4.2	5.0	5.3
Receivables	19.5	25.1	25.4	30.0	32.0
Other current assets	5.8	7.1	-	-	-
Total current assets	**114.9**	**189.2**	**204.4**	**241.0**	**284.5**
Payables	7.6	17.3	6.3	7.1	8.0
Short term borrowings	2.0	0.7	0.7	0.7	0.7
Other current liabilities	1.9	0.2	-	-	-
Total current liabilities	**11.5**	**18.1**	**6.9**	**7.8**	**8.7**
Long term borrowings	33.6	12.0	12.0	12.0	12.0
Other long term liabilities	5.5	5.7	-	-	-
Total long term liab.	**39.0**	**17.7**	**12.0**	**12.0**	**12.0**
Shareholders' Funds	**156.5**	**259.1**	**293.2**	**330.6**	**373.9**
Minority Interest	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Cash Flow Statement

FYE 30 Sept (RMmn)	FY2024A	FY2025F	FY2026F	FY2027F	FY2028F
Pretax Profit	19.1	26.6	46.8	51.3	59.3
Depreciation & amortisation	6.9	7.2	8.1	8.1	9.2
Working capital changes	(8.0)	2.2	(0.8)	(5.4)	(2.3)
Cash tax paid	(6.7)	(8.0)	(12.7)	(13.8)	(16.0)
Others	3.9	1.0	1.1	1.1	1.1
C/F from operation	**15.2**	**29.0**	**42.4**	**41.2**	**51.2**
Capex	(2.9)	(14.1)	(20.0)	(10.0)	(10.0)
Others	0.1	(7.2)	0.0	0.0	0.0
C/F from investing	**(2.8)**	**(21.3)**	**(20.0)**	**(10.0)**	**(10.0)**
Debt raised/(repaid)	(3.5)	(22.9)	0.0	0.0	0.0
Dividends paid	(2.0)	0.0	0.0	0.0	0.0
Others	(0.0)	80.8	0.0	0.0	0.0
C/F from financing	**(5.5)**	**57.9**	**0.0**	**0.0**	**0.0**
Net change in cash flow	**6.9**	**65.5**	**22.4**	**31.2**	**41.2**
Free Cash Flow	**12.2**	**14.9**	**22.4**	**31.2**	**41.2**

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Equity:

BUY: Total stock return expected to exceed +15% over 12-month period

HOLD: Total stock return to be between -15% and +15% over a 12-month period

SELL: Total stock return expected to below -15% over a 12-month period

TRADING BUY: Total stock return expected to exceed +10% over 6-month period

TRADING SELL: Total stock return expected to below -10% over a 6-month period